

Aroundtown SA

Germany / Real Estate
 Frankfurt Stock Exchange
 Bloomberg: AT1 GR
 ISIN: LU1673108939

2018
 Results

RATING
PRICE TARGET
 Return Potential
 Risk Rating

BUY
€ 9.50
 27.9%
 Medium

2018 TARGETS MET; PRIMED FOR ANOTHER STRONG YEAR

Investors should use the recent dip in the AT share price to buy the stock. Full year headline figures topped our forecasts and showed strong annualised growth led by net rental income (+41%) and FFO 1 (+39%). Commercial assets topped €14bn at YE and management noted some €0.6bn in acquisitions YTD. The performance translated into 18% annualised NAVPS growth (excluding perpetuals). The pipeline remains full, and the cash position gives management good financial flexibility to act swiftly. The company plans to pay out a €0.25 per share dividend equating to a 3.4% yield, and guidance points to another strong year. We reiterate our Buy rating and €9.5 price target.

Core markets continue to spur growth Management addressed market concerns about a potential macro slowdown this year by noting that Aroundtown's core markets remain extremely attractive with little to no drop off vs 2018. The strong start to 2019 supports this view. Some €600m in deals have been closed post reporting following acquisitions of ~€0.9bn in Q4. On the earnings call, management indicated a > €1bn pipeline primarily containing office and hotel assets in core regions. Meanwhile, occupier demand remains very strong in Germany led by Frankfurt and Munich. Both metropolises experienced their highest uptake rates in 15 years. This will help AT corral the embedded 32% upside in its portfolio. Guidance calls for a 13% to 16% increase in FFO 1 Y/Y to €460m - €470m based on the current portfolio including the Q1 deals. Given the current market environment, we see plenty of scope for upward revisions as the year progresses. We look for another year of solid organic and external growth and have raised our forecasts to reflect these factors.

Market environment continues to favour the AT business model We believe market dynamics remain favourable for Aroundtown's dual growth engine that combines external and operational growth. While we recognise that we are no longer early in the commercial cycle, . . . (p.t.o)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Net rent (€m)	233.38	448.98	633.00	771.03	824.44	877.06
Adj. EBITDA (€m)	268.2	429.3	606.0	731.2	781.0	831.1
Net income (€m)	901.09	1,539.00	1,827.80	1,158.90	1,106.28	1,026.28
EPS (diluted) (€)	0.88	1.35	1.49	0.88	0.85	0.79
EPRA NAV ¹ (€m)	4,349.05	7,656.28	10,290.10	11,219.00	12,088.36	12,851.46
NAVPS ¹ (€m)	5.40	7.63	9.11	9.94	10.71	11.39
DPS (€)	0.16	0.23	0.25	0.28	0.30	0.32
FFO 1 (€m)	165.63	293.00	405.74	482.25	515.50	549.31
FFOPS 1 (€)	0.25	0.36	0.39	0.43	0.46	0.49
Liquid assets (€m)	833.44	841.60	1,599.50	1,509.21	1,583.14	1,522.98

¹ includes perpetual notes

RISKS

Risks include, but are not limited to, unfavourable interest rate developments, unfavourable macroeconomic developments, and the departure of key personnel.

COMPANY PROFILE

Aroundtown SA is a specialist real estate company focused on investing in and managing value-add properties primarily located in the German/ Netherlands real estate markets.

MARKET DATA

As of 03 Apr 2019

Closing Price	€ 7.43
Shares outstanding	1129.00m
Market Capitalisation	€ 8383.95m
52-week Range	€ 6.29 / 7.88
Avg. Volume (12 Months)	3,489,735

Multiples	2018	2019E	2020E
P/FFO 1	19.3	17.4	16.3
P/EPRA NAV	0.8	0.7	0.7
FFO 1 Yield	5.2%	5.8%	6.2%
Div. Yield	3.4%	3.7%	4.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2018

Liquid Assets	€ 1,600.00m
Current Assets	€ 2,102.00m
EPRA NAV ¹	€ 10,290.00m
Total Assets	€ 19,041.00m
Current Liabilities	€ 606.00m
Total Equity	€ 9943.00m

¹ includes perpetual notes

SHAREHOLDERS

Avisco Group	28.9%
Blackrock	5.3%
Free Float	65.8%



. . . we do not believe it is too late for AT to continue to pick up further office and hotel assets without compromising its acquisition criteria. Management continue to use a 7% unlevered NOI (net operating income) after 3 to 4 years as a hurdle rate for future deals. Moreover, the company has built a sizable stable of commercial properties, which are primed to deliver steady operational growth for the next eight years. Our updated forecasts equate to FFOPS and NAVPS growth of 11% respectively for 2019.

BREAKING DOWN 2018 RESULTS

AT realised total like-for-like (LFL) rental growth of 4.8% in 2018 comprising 2.6% in-place rent and 2.2% occupancy increases. This was led by the hotel segment, which improved 10% on a like-for-like basis, while the office portfolio featured 4% LFL growth. Berlin and Amsterdam spearheaded the LFL regional increase at 9% followed by Frankfurt (8%). The company guides for ~4.0% LFL growth for 2019. The residential landlord, Grand City Properties (39% AT stake), reported 3.4% LFL growth (3.1% in-place rent; 0.3% occupancy) last year.

All figures in EURm	2018	2018E	variance	2017	variance	Q4/18	Q4/17	variance
Recurring LT net rental income	614	606	1.3%	415	48%	174	122	43%
Net rental income	633	633	0.0%	449	41%	177	129	37%
Rental and operating income	747	747	0.0%	527	42%	207	153	35%
Adjusted EBITDA commercial	497	492	1.0%	339	47%	137	102	34%
<i>Margin</i>	81%	81%	-	82%	-	79%	84%	-
Adjusted EBITDA	606	570	6.3%	429	41%	166	126	32%
FFO 1	406	406	0.1%	293	39%	109	89	22%
FFOPS 1 (€)	0.39	0.39	0.1%	0.36	8%	0.10	0.10	0%

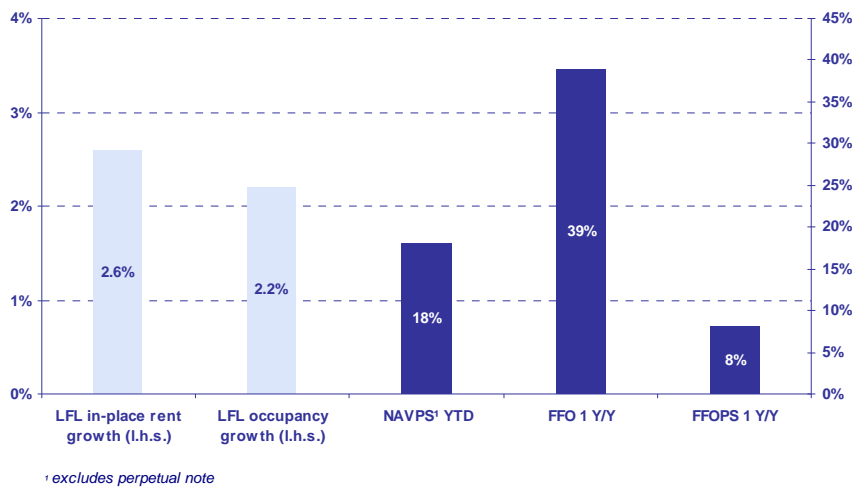
Source: First Berlin Equity Research; Aroundtown

Net rental income (NRI) rose 41% Y/Y to €633m (FBe: €599m), while recurring net rental income—excluding RI from properties earmarked for disposal—was up 48% Y/Y to €614m. On a quarterly basis, NRI of €177m rose 37% Y/Y and 7.2% sequentially, while recurring NRI was up 43% Y/Y to €174m. Annualised, recurring NRI stood at €687m as of December 2018.

The capital gains, property revaluations and other income line item totalled €1.5bn for the year (2017: €1.3bn) and €291m for the quarter (Q4/17: €350m). Revaluations were driven by yield compression (30%), operational performance (50%), and property development rights (20%). The strong performance relates to Aroundtown's value-add business model: acquiring properties with high reversionary potential and value creation upside through asset repositioning. Net profit climbed 19% to €1.8bn in 2018 and totalled €0.4bn in the fourth quarter owing to portfolio growth and the unlocking of embedded value. Diluted EPS climbed 10% to €1.49 in 2018.



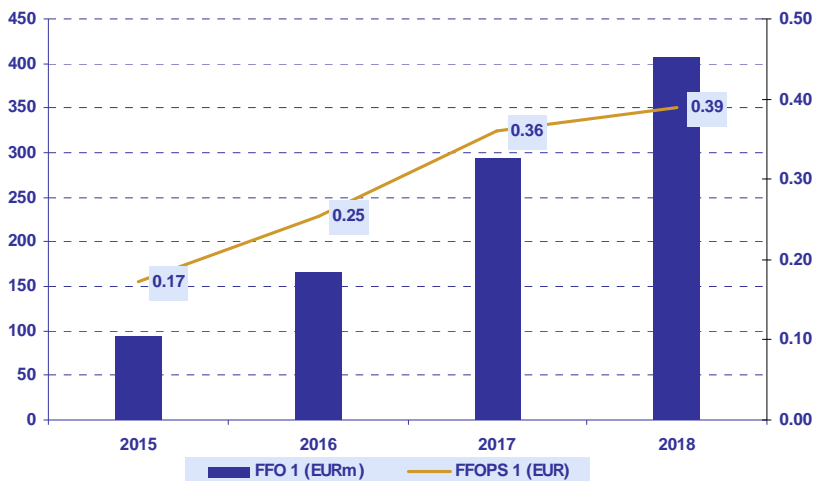
Figure 1: Operating KPI's in 2018



Source: First Berlin Equity Research; Aroundtown

'Adjusted EBITDA commercial, recurring long-term' reflects the underlying operational profit of the commercial portfolio by excluding revaluation effects, disposal gains, and share of profits from investments in equity-accounted investees. This climbed 47% Y/Y in 2018 to €0.5bn. The increase is traced to external growth realised through accretive acquisitions and improving occupancy rates and rent levels. Including the 39% GCP stake, adjusted EBITDA rose 41% Y/Y to €0.6bn. On a Q4 basis, adjusted EBITDA commercial, recurring long-term rose at a 34% annualised rate and 3% Q/Q.

Figure 2: FFO 1 and FFOPS 1 development



Source: First Berlin Equity Research; Aroundtown

FFO 1, the key industry indicator for recurring cash flow, climbed 39% Y/Y to €406m equating to FFOPS 1 of €0.39 (FBe: €0.38) and a 5.2% yield. Per share growth was partially negated by the larger share count traced to the equity raise and bond conversions between the two years. For the fourth quarter, FFO 1 totalled €109m (+22%) translating into FFOPS 1 of €0.10. Sequentially, FFO 1 just topped the Q3 result (€108m). This owes chiefly to higher financial expenses and an uptick in staffing costs associated with the strong portfolio expansion. We expect scale effects and the latest portfolio expansion to offset these expenses going forward. Based on the current portfolio, the company guides for an FFO 1 range of €460m to €470m and FFOPS 1 of €0.41 - €0.42 for 2019.



Thanks to some €740m in property disposals in 2018, FFO 2 amounted to €575m. This generated disposal gains of some €169m, or 30% above total costs including CapEx. As part of its asset rotation strategy, the disposed assets were mainly in non-core locations or fully stabilised properties. Proceeds will be reinvested according to the core strategy.

Table 1: Commercial properties overview YE18

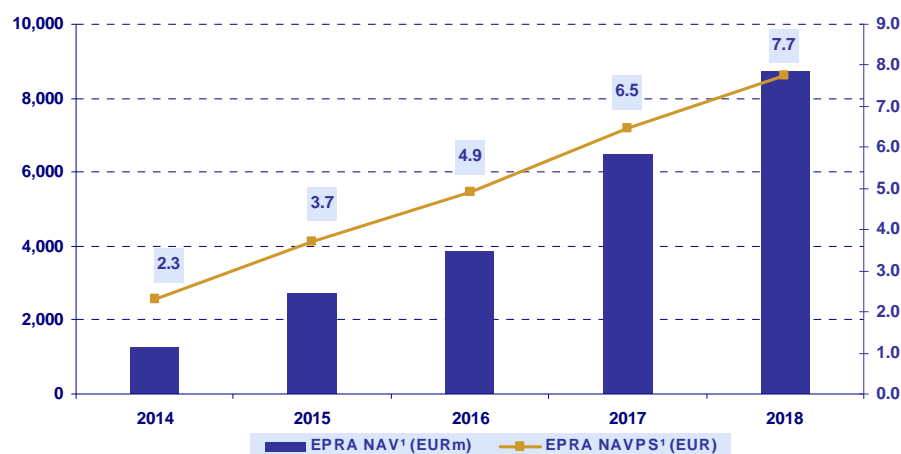
	Investment properties (€m)	Rentable area ('000 m ²)	EPRA vacancy	Annualised net rent (€m)	In-place rent (€/m ²)	Value (€/m ²)	Rental yield	WALT
Office	7,128	2,998	10.9%	359	10.7	2,337	5.0%	4.7
Hotel	3,925	1,255	6.0%	201	13.9	3,127	5.1%	14.8
Logistics/Wholesale	1,226	1,411	6.1%	71	4.5	869	5.8%	6.9
Retail	917	448	7.5%	56	10.4	2,046	6.1%	5.8
Land for development & rights	978							
Total	14,174	6,112	8.8%	639	9.7	2,159	5.2%	7.5

Source: First Berlin Equity Research; Aroundtown

AT purchased a blend of predominantly office and hotel assets last year for ~€3.3bn and exited 2018 with €14.2bn (2017: €9.8bn; +45%) in commercial investment properties (excluding assets held for sale). The asset mix continues to be dominated by office and hotel properties featuring high revisionary potential and good demographics. Management noted on the call that Berlin, Hamburg, and Amsterdam remain particularly attractive and believed that Germany and the Netherlands continue to exhibit the best economic fundamentals in the EU to help insulate against a prolonged economic downturn.

Earnings spur NAV growth As of 31 December, EPRA NAV totalled €8.7bn (€7.7 / share) compared to €6.5bn at year end 2017 (€6.5 / share, +18% YTD, +4% Q/Q). NAV growth stems predominantly from the high growth pace, portfolio value extraction and the equity raise in March 2018. Including perpetual notes, which are classified as equity under IFRS, this KPI stood at €10.3bn or €9.1 / share (+20% Y/Y). EPRA earnings totalled €403m and €0.38 per share vs €304m and €0.37 / share in 2017.

Figure 3: EPRA NAV and NAV per share developments



¹excluding perpetual notes

Source: First Berlin Equity Research; Aroundtown

**Table 2: Financial highlights**

All figures in EURm	2018	2017	variance
Cash and liquid assets	1,601	849	89%
Investment property	14,174	9,804	45%
Investment in equity-accounted investees	2,215	1,906	16%
Total assets	19,041	13,770	38%
Net debt	5,871	4,400	33%
Total equity	9,944	7,250	37%
Equity ratio	52%	53%	
EPRA NAV	8,742	6,483	35%
EPRA NAV inc perpetual notes	10,290	7,756	33%
Loan-to-Value (LTV)	35%	36%	-

Source: First Berlin Equity Research; Aroundtown

Cash position provides good flexibility AT reported cash and liquid assets of €1.6bn for the period ended 31 December compared to €849m at the end of Q4/17, while net debt stood at €5.9bn vs €4.4bn at the end of 2017. The debt structure had an LTV of 35% at YE, which remained well below the 45% internal limit set by the Management Board. The debt structure features a 1.8% average cost of debt with a 7.4 year maturity, giving AT the longest maturity among the German commercial landlords. AT issued a flurry of straight bonds and Schuldscheine (promissory notes) in Q1/Q2 totalling some €1.7bn, which support the planned growth and strategy of extending debt maturity and increasing currency diversification. Given the €0.6bn in post reporting acquisitions, we believe the company has ample financial firepower to execute on its > €1bn pipeline, cover expected CapEx (2019E: €150m), and pay out the proposed dividend.

Table 3: Changes to our forecasts

in €m	2019E			2020E		
	Old	New	Variance	Old	New	Variance
Rental income	826	910	10.2%	878	973	10.9%
Net rent (NRI)	704	771	9.5%	748	824	10.2%
Adj. EBITDA, commercial	573	615	7.3%	611	658	7.7%
margin	81%	80%	-	82%	80%	-
FFO 1, commercial portfolio	393	413	5.0%	423	441	4.3%
Margin	56%	54%	-	57%	54%	-
FFO 1	458	482	5.3%	494	515	4.4%
Margin	65%	63%	-	66%	63%	-
FFOPS 1 (€)	0.41	0.43	4.2%	0.44	0.46	3.8%

Source: First Berlin Equity Research estimates

Primed for another strong year Management guide for 4% LFL rental growth in 2019. We believe this is conservative (2018: 4.8% actual vs 4.0% guidance) and model for 4.5% LFL rental growth. Based on the communicated +€1bn pipeline and including the €0.6bn in deals inked in Q1, we have modelled some €1.5m in acquisitions this year. We have also factored in slightly higher operating expenses to accommodate the growth and account for cost inflation. The higher debt load following the recent corporate issuances increases our interest expense assumptions causing FFO 1 to grow at a slower pace.



ECONOMIC PROFIT MODEL

We now use an economic profit model (old: discounted EPRA NAV method) to value Aroundtown. In general, we believe this method best illustrates the company's ability to add value through its rental income streams and reward shareholders with attractive dividend and FFO yields.

Although perpetual notes are considered equity under IFRS, many investors still refuse to accept that a landlord can increase its NAV by merely issuing perpetual notes. Therefore, we choose the more conservative approach for valuation purposes and refer to NAV before perpetuials.

in €m	2019E	2020E	2021E	2022E	TV
EBITDA	615	658	701	746	753
(+) Revaluations	778	685	562	489	190
(+) Investment income (GCP)	116	123	130	137	138
(-) Tax expense	113	110	104	103	81
NOPAT	1,396	1,356	1,288	1,268	1,000
Total assets	21,148	22,852	24,175	24,990	24,990
(-) Current liabilities	715	759	802	830	830
(+) Current financial debt	27	27	27	27	27
(-) Cash	1,138	1,212	1,151	1,026	1,026
(+) Deferred taxes	998	1,182	1,353	1,520	1,520
Capital employed (CE)	20,320	22,091	23,602	24,680	24,680
ROCE	7.3%	6.4%	5.6%	5.3%	4.1%
WACC	4.0%	4.0%	4.0%	4.0%	4.0%
ROCE-WACC	3.3%	2.4%	1.7%	1.3%	0.1%
Economic Profit	634	514	380	309	19
NPV	616	480	342	267	561
Fair value calculation					
Total return	2,265				
(+) NAV ¹ (2018)	8,742				
(-) Dividend to be paid	264				
Equity value	10,744				
Diluted SO ('000)	1,129				
Fair value per share (€)	9.50				
Target price (€)	9.50				
Share price (€)	7.43				
Return potential	27.9%				
Dividend yield	4.0%				
Total return potential	31.9%				

¹ excludes perpetuials



INCOME STATEMENT

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Net rent	233	449	633	771	824	877
Operating and other income	40	78	114	139	149	158
Rental and operating income (RI)	274	527	747	910	973	1,035
Capital gains, property revaluations & other	720	1,327	1,536	778	685	562
Result from equity-accounted investees	197	228	252	162	162	165
Property OpEx	-75	-147	-219	-266	-284	-302
Administration & other OpEx	-8	-15	-23	-27	-29	-30
Operating income (EBIT)	1,107	1,920	2,294	1,557	1,508	1,430
Net financial result	-47	-70	-115	-145	-153	-163
Other financial expenses	-36	-15	-94	0	0	0
Pre-tax income (EBT)	1,024	1,836	2,085	1,411	1,355	1,266
Tax expense	-20	-34	-44	-55	-59	-63
Deferred tax	-103	-263	-213	-198	-190	-177
Tax result	-123	-297	-257	-253	-249	-240
Comprehensive net income	901	1,539	1,828	1,159	1,106	1,026
Minority interests	169	228	161	116	111	103
Perpetual notes	4	29	46	46	46	46
Net income to owners	728	1,283	1,620	997	950	878
Basic EPS (€)	1.11	1.56	1.54	0.88	0.84	0.78
Diluted EPS (€)	0.87	1.35	1.49	0.88	0.84	0.78
Adjusted EBITDA commercial	195	339	497	615	658	701
Ratios						
Adj EBITDA commercial margin	83.4%	81.7%	80.9%	79.7%	79.8%	79.9%
Tax rate	7.4%	7.8%	7.3%	7.5%	7.5%	7.5%
Expenses as % of revenues						
Property OpEx	27.5%	27.9%	29.3%	29.2%	29.2%	29.2%
Administration & other OpEx	2.9%	2.8%	3.0%	3.0%	3.0%	2.9%
Y/Y Growth						
Revenues	118.7%	92.6%	41.7%	21.8%	6.9%	6.4%
Operating income	6.3%	73.5%	19.4%	-32.1%	-3.2%	-5.2%
Adjusted EBITDA	109.8%	74.3%	46.5%	23.8%	7.0%	6.6%
Net income/ loss	6.0%	76.1%	26.3%	-38.5%	-4.8%	-7.6%
Funds from Operations (FFO)						
Adjusted EBITDA commercial portfolio	195	339	497	615	658	701
Finance expense	-47	-70	-115	-145	-153	-163
Tax expense	-20	-34	-44	-55	-59	-63
Minority adjustment	-7	-9	-7	-8	-9	-10
Other adjustments	0	10	8	7	4	4
FFO 1 commercial (long-term recurring)	120	237	339	413	441	469
Adjustment for GCP contribution	46	56	67	69	74	80
FFO 1	166	293	406	482	515	549



BALANCE SHEET

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Assets						
Current assets, total	1,100	1,523	2,102	1,907	2,004	1,967
Cash and cash equivalents	641	736	1,243	1,138	1,212	1,151
Short-term investments	181	99	366	366	366	366
Receivables	111	163	277	337	360	383
Other current assets	11	18	5	5	5	5
Assets held for sale	155	508	211	61	61	61
Non-current assets, total	6,989	12,247	16,939	19,241	20,848	22,208
Property, plant & equipment	23	26	33	34	34	35
Investment properties	5,016	9,804	14,174	16,337	17,819	19,056
Equity accounted investees	1,557	1,906	2,215	2,323	2,428	2,531
Other LT assets	393	512	517	547	567	586
Total assets	8,089	13,770	19,041	21,148	22,852	24,175
Shareholders' equity & debt						
Current liabilities, total	349	566	606	715	759	802
Short-term debt	160	17	27	27	27	27
Accounts payable	108	267	451	555	593	631
Provisions & other current liabilities	81	282	128	133	138	144
Long-term liabilities, total	3,799	5,955	8,491	9,593	10,461	11,050
Long-term debt	3,385	5,078	7,444	8,344	9,017	9,423
Deferred tax liabilities	366	752	882	1,080	1,270	1,447
Other LT liabilities	48	125	164	169	175	180
Minority interests	373	674	567	683	794	896
Shareholders' equity	3,568	6,576	9,377	10,156	10,839	11,427
Total consolidated equity and debt	8,089	13,770	19,041	21,148	22,852	24,175
Ratios						
ICR (x)	5.7	5.4	4.7	4.2	4.3	4.3
Equity ratio	48.7%	52.6%	52.2%	51.3%	50.9%	51.0%
EPRA NAV ¹	3,871	6,483	8,742	9,671	10,541	11,304
EPRA NAVPS ¹ (€)	4.9	6.5	7.7	8.6	9.3	10.0
Net debt	2,737	4,400	5,871	6,862	7,461	7,927
Return on equity (ROE)	25.3%	23.4%	19.5%	11.4%	10.2%	9.0%
Loan-to-value (LTV)	39.3%	35.9%	35.3%	36.5%	36.6%	36.5%
Interest coverage ratio (x)	5.7	5.4	4.7	4.2	4.3	4.3

¹ excludes perpetual notes



CASH FLOW STATEMENT

All figures in EURm	2016	2017	2018	2019E	2020E	2021E
Net income	901	1,539	1,828	1,159	1,106	1,026
Depreciation & amortisation	2	2	2	2	2	2
Capital gains, property revaluations & other	-720	-1,327	-1,536	-778	-685	-562
Profit share from equity accounted investees	-197	-228	-252	-162	-162	-165
Shared based payment in a subsidiary	2	2	3	0	0	0
Net finance expenses	83	85	208	145	153	163
Tax result	123	297	257	253	249	240
Operating cash flow	195	369	510	619	662	705
Changes in working capital	-17	-13	-39	28	9	10
Provisions for other liabilities	-1	-2	-3	2	2	2
Dividend received	18	41	51	54	57	62
Tax paid	-16	-33	-46	-55	-59	-63
Net operating cash flow	179	362	473	647	671	716
CapEx/ intangibles	-7	-9	-5	-2	-3	-3
Disposal/ investment in investment properties, net	-1,051	-615	-915	-1,236	-796	-676
Acquisition/disposals of subsidiaries	-994	-1,946	-1,829	0	0	0
Proceeds from investments in financial assets	151	-184	-175	-5	-5	-5
Cash flow from investing	-1,900	-2,754	-2,924	-1,243	-804	-683
Debt financing, net	1,786	1,165	2,588	900	673	406
Equity financing, net	741	1,561	953	0	0	0
Dividends paid	-34	-155	-226	-264	-313	-335
Other financing activities	-204	-13	-265	0	0	0
Net paid financing expenses	-45	-66	-97	-145	-153	-163
Cash flow from financing	2,244	2,492	2,953	491	206	-93
Net cash flows	523	100	501	-105	74	-60
Assets held for sale - cash	-2	-5	6	0	0	0
Cash, start of the year	121	641	736	1,243	1,138	1,212
Cash, end of the year	641	736	1,243	1,138	1,212	1,151
Adjusted EBITDA commercial/share (€)	0.30	0.41	0.47	0.54	0.58	0.62
FFO 1	166	293	406	482	515	549
FFOPS 1 (€)	0.25	0.36	0.39	0.43	0.46	0.49
Y/Y Growth						
EBITDA/share	75.7%	38.6%	14.4%	15.5%	7.0%	6.6%
FFO 1	76.1%	76.9%	38.5%	18.9%	6.9%	6.6%
FFOPS 1 (€)	47.5%	40.7%	8.1%	10.9%	6.9%	6.6%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	29 September 2015	€3.40	Buy	€5.70
2...21	↓	↓	↓	↓
22	30 August 2018	€7.74	Buy	€9.00
23	29 November 2018	€7.58	Buy	€9.50
24	15 March 2019	€7.58	Buy	€9.50
25	Today	€7.43	Buy	€9.50

Authored by: Ellis Acklin, Analyst

Company responsible for preparation:

First Berlin Equity Research GmbH

Mohrenstraße 34
10117 Berlin

Tel. +49 (0)30 - 80 93 96 83 Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com

www.firstberlin.com

Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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- key sources of information in the preparation of this research report
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